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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

March 10, 1993

Ms. Donna R. Searcy, Secretary
Federal Communications Commission
1919 Street, N.W., Room 222
Washington, D.C. 20554

In the Matter of:

Simplication of the Depreciation Prescription Process	))))	CC Docket No. 92-296

Dear Ms. Searcy:

Enclosed for filing is the original and four copies of Cincinnati Bell Telephone Company's Comments in the above-captioned proceeding.

Please date stamp and return the enclosed duplicate copy of this letter as acknowledgement of its receipt. Questions regarding this filing should be directed to Mrs. Lynda Breen at the above address of by telephone on (513) 397-1265.

Sincerely,

Robert E. Sigmon

Enclosures

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of:	)	
Simplification of the	)	CC Docket No. 92-296
Depreciation Prescription	)	
Process	)	

COMMENTS OF CINCINNATI BELL TELEPHONE COMPANY

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Dated: March 10, 1993

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FEDERAL COMMUNICATIONS COMMISSION
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**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of: Simplification of the Depreciation Prescription Process	))))	CC Docket No. 92-296

COMMENTS OF CINCINNATI BELL TELEPHONE COMPANY

Cincinnati Bell Telephone Company (CBT) submits the following comments pursuant to the Commission's December 29, 1992 Notice of Proposed Rulemaking (NPRM) in the above-captioned proceeding.[1/] CBT supports the comments being filed by the United States Telephone Association (USTA) in this proceeding, and offers these additional comments addressing issues of specific concern to CBT, a rate-of-return carrier.

I. SUMMARY AND OVERVIEW

CBT supports the Commission's desire to simplify the depreciation prescription process. The current procedures for

1/ Simplification of the Depreciation Prescription Process, CC Docket No. 92-296, Notice of Proposed Rulemaking, FCC 92-537, released December 29, 1992.

arriving at depreciation rates are far too time consuming and expensive, both for carriers and the Commission. In addition, the structural changes in the local exchange market which have taken place since the 1940s, and, in particular, the rapid pace of growth in competition in recent years, provide further impetus to simplify the depreciation prescription process.

In today's competitive environment, CBT, like other local exchange carriers (LECs) and interexchange carriers (IXCs), needs increased flexibility to control and manage its business assets. The Commission's current depreciation procedures rely heavily on historical data, which produce depreciation rates that are often inappropriate for today's environment where technology is changing rapidly, competition is a reality, and customers are demanding a wider variety of new, sophisticated services. Today's competitive environment calls for a more forward-looking approach to better serve the public interest. It also demands that carriers be given the opportunity to establish depreciation rates which truly reflect economic consumption.

The NPRM proposes four options for simplifying the determination of depreciation expenses: (1) the basic factor range option; (2) the depreciation rate range option; (3) the depreciation schedule option; and (4) the price cap carrier option.[2] With respect to each option, the Commission seeks comment on a variety of specific issues. CBT submits that of the four options set forth above, the price cap carrier option would provide the best means of achieving the Commission's simplification goals in this proceeding, and give carriers the flexibility they need to compete in today's competitive marketplace. As suggested by USTA, if the price cap carrier option is adopted by the Commission, it could also easily accommodate rate-of-return carriers. If the goal of simplification is to be most effectively achieved, it is not necessary to adopt one plan for price cap carriers and another for rate-of-return carriers, especially when there are currently only two rate-of-return carriers for whom the Commission prescribes depreciation rates. The focus should be on simplification of procedures that enable all exchange carriers to respond to the competitive marketplace irrespective of the form of regulation under which the carrier operates. In addition, as discussed herein, there are already sufficient safeguards in place to prevent potential abuses by rate-of-return carriers should the Commission decide to adopt the price cap carrier option for all carriers.

2/ NPRM at paragraph 9.

Should the Commission decline to adopt the price cap carrier option, or adopt it for price cap carriers only, CBT submits that the depreciation rate range option, with the modifications set forth herein, would be acceptable to CBT, as would the basic factors range option. The depreciation schedule option, however, is the least desirable option and should be rejected. CBT hereinafter addresses these three options. If either of the range options is implemented, all accounts should be included. If only selected accounts are included, the maximum benefits of simplification will go unrealized.

II. THE DEPRECIATION RATE RANGE OPTION

Under the depreciation rate range option, the Commission proposes to use industry data to establish a range of depreciation rates for each applicable account. Carriers would select a rate from the range and apply it to the appropriate plant account balance to calculate their depreciation expenses.3/ According to the Commission, the primary difference between this option and the basic factor range option is that depreciation rates would be established without resorting to the current formula.4/

3/ NPRM at paragraph 10.

4/ NPRM at paragraph 10.

CBT submits that if the price cap carrier option is not permitted for rate-of-return carriers, then the depreciation rate range option would be the most suitable for rate-of-return carriers. This assumes that the true intent of the depreciation rate range option is to reduce costs and provide a reasonable range of depreciation rates from which carriers can select appropriate rates to meet their individual needs. However, if the depreciation rate ranges established under this option are too narrow, and carriers are not permitted to propose rates outside those ranges in appropriate circumstances, then this option may well prevent the full recovery of investment. The primary goal of this docket should be the establishment of a simplified depreciation process that reduces costs, includes appropriate rate levels, and is flexible enough to accommodate carriers whose individual circumstances warrant depreciation rates outside the predetermined ranges. In addition, the depreciation rate ranges established under this option must be wide enough to accommodate the various reserve positions[5/] throughout the industry. With sufficiently wide ranges, companies will be able to propose depreciation rates that include any amortizations of depreciation reserve imbalances that may be necessary. If the ranges are not sufficiently wide, then there

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5/ NPRM at paragraph 32.

must be a plan in place to allow for the amortization of depreciation reserve imbalances.

The NPRM seeks comment on how the ranges of depreciation rates should initially be established.[6/] CBT agrees with the Commission's tentative conclusion that industry-wide data should be the initial basis for determining rate ranges.[7/] CBT submits that the Commission should compile or supervise the accumulation of such industry-wide data. CBT also submits that the industry-wide data should include information from all carriers for whom the Commission has traditionally prescribed depreciation rates (i.e. IXCs and LECs). CBT believes the inclusion of all such carriers is appropriate in an industry where technology does not differ significantly among carriers and where the Commission desires to ensure the timely recovery of similar technology for all carriers subject to its regulation.

CBT submits that the industry-wide data should be weighted by investment dollars. CBT agrees with the Commission that the initial ranges should include currently prescribed depreciation rates.[8/] However, carriers' best estimates as

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6/ NPRM at paragraph 27.

7/ NPRM at paragraph 27.

8/ NPRM at paragraph 26.

supplied in depreciation rate studies should also be taken into consideration. In addition, on a going forward basis, the depreciation rate ranges could be benchmarked against the rates of companies such as alternative access providers, cellular carriers, two-way capable cable providers and the private networks of large corporations.

Once the industry-wide data and carrier-supplied depreciation rate studies described above are compiled, such information should be used to construct a weighted mean with a range of plus or minus two standard deviations about the weighted mean. Such a range would accommodate approximately 95 percent of the industry-wide data, allow carriers to respond to changing market conditions, and minimize the number of carriers requesting rates outside the range. A range of plus or minus one standard deviation, as the Commission suggests,[9/] would exclude 32 percent of the previously prescribed industry-wide data. The purpose of the depreciation rate range option should be to establish a range of "normal" depreciation rates from which carriers may select rates to meet their individual needs, and there should be no restriction on the percent change between consecutive periods as long as the chosen rate falls within an established range.

9/ NPRM at paragraph 27.

must be a plan in place to allow for the amortization of depreciation reserve imbalances.

The NPRM seeks comment on how the ranges of depreciation rates should initially be established.[6/] CBT agrees with the Commission's tentative conclusion that industry-wide data should be the initial basis for determining rate ranges.[7/] CBT submits that the Commission should compile or supervise the accumulation of such industry-wide data. CBT also submits that the industry-wide data should include information from all carriers for whom the Commission has traditionally prescribed depreciation rates (i.e. IXCs and LECs). CBT believes the inclusion of all such carriers is appropriate in an industry where technology does not differ significantly among carriers and where the Commission desires to ensure the timely recovery of similar technology for all carriers subject to its regulation.

CBT submits that the industry-wide data should be weighted by investment dollars. CBT agrees with the Commission that the initial ranges should include currently prescribed depreciation rates.[8/] However, carriers' best estimates as

6/ NPRM at paragraph 27.

7/ NPRM at paragraph 27.

8/ NPRM at paragraph 26.

The Commission tentatively concluded that under the depreciation rate range option, the use of rates within the established ranges should be mandatory for all carriers.[10/] CBT submits that the ranges established under this option should not be absolutely mandatory since carriers will face unique circumstances from time to time. This is consistent with the Commission's current depreciation procedures which allow depreciation rates to vary significantly from industry averages in appropriate circumstances. CBT submits that the Commission should allow carriers to supply supporting data to justify rates outside the range when they believe it is necessary.

The Commission also tentatively concluded that it should not establish rate ranges for all plant accounts at this time.[11/] In the interest of true simplification, CBT urges the Commission to establish rate ranges for all accounts, and give carriers the discretion to select any rate within those ranges. CBT submits that there are already sufficient safeguards in place to prevent unbridled discretion by carriers in their depreciation practices. These safeguards include: (1) regulatory filings such as ARMIS, Form M and service outage

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10/ NPRM at paragraph 28.

11/ NPRM at paragraph 28.

reports; (2) prior Commission orders prohibiting over-recovery;[12] (3) internal and external auditors who ensure that carriers remain in compliance with regulations promulgated by the Internal Revenue Service, the Securities and Exchange Commission, and the Generally Accepted Accounting Principles Board; and (4) the comments of other parties during Commission proceedings. In light of these safeguards, carriers need not be further restrained in their selection of depreciation rates within established ranges.

The NPRM seeks comment on whether the depreciation rate range option should be implemented for all carriers at the same time.[13] CBT submits that carriers should be provided the option to phase in the new procedure under the normal three-year represcription cycle. Such a timeframe would give carriers time to make any procedural or programming changes that may be necessary, and lessen administrative burdens. The new procedure should be implemented for carriers subject to depreciation prescription in 1994. Once this simplified depreciation methodology is implemented, carriers should be

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12/ For example, See In the Matter of The Prescription of Revised Percentages of Depreciation pursuant to Section 220(b) of the Communications Act of 1934, as Amended, Order, FCC 83-587, released December 20, 1983, at paragraph 53.

13/ NPRM at paragraph 28.

permitted to change their depreciation rates annually[14/] as long as the chosen rate is within the established range. Permitting carriers to change their depreciation rates on an annual basis would allow them to respond more quickly to changes in technology or increased competition. As suggested above, carriers must also be given the opportunity to supply supporting data to justify rates outside established ranges when circumstances warrant.

The NPRM asks whether the Commission should review depreciation rate ranges on a less frequent basis than it now reviews individual company depreciation rates.[15/] CBT submits that reviewing depreciation rate ranges once every five or ten years would be ill advised due to the rapid pace of technological advancement and changes in customer demand. Accordingly, CBT submits that depreciation rate ranges for technology-driven accounts should be reviewed by the Commission at least once every three years. A five-year review cycle may be sufficient for the remaining accounts. When reviewed, changing factors should be recognized by establishing new weighted means based on various carriers' current rates. The

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14/ Rate-of-return carriers should be permitted to elect the effective date of any such change to correspond with the annual Access Filing.

15/ NPRM at paragraph 29.

rates used to establish the new weighted means should include rates approved based on out-of-range submissions by carriers. The new ranges should then be plus or minus two standard deviations about the new means.

III. THE BASIC FACTORS RANGE OPTION

Under the basic factors range option, the Commission proposes to simplify the depreciation process by establishing ranges for the basic factors that determine the parameters used in the current depreciation rate formula, the FNS, the projected life and survivor curve (the basic factors that are used to develop the parameters that depreciation rate).[16/] This proposal would essentially eliminate the need for carriers to submit detailed studies in support of their proposed factors.[17/] Many of CBT's comments regarding the depreciation rate range option are applicable to the basic factors range option as well. For example:

(1) range widths must accommodate a majority of the carriers;

(2) industry-wide data should be used to construct a weighted mean with a range of plus or minus two standard deviations;

16/ NPRM at paragraph 9.

17/ NPRM at paragraph 9.

(3) initial ranges should be based on data of local exchange carriers and interexchange carriers;

(4) data could be benchmarked against all organizations who depreciate telecommunications equipment or have the ability to compete with local exchange carriers;

(5) there should be no restriction on the percent change within the range between consecutive periods;

(6) the use of ranges should not be mandatory. Carriers should be allowed to propose depreciation rates which fall outside the established range as circumstances warrant;

(7) all accounts should be included;

(8) carriers should be provided the option to phase in the new procedure under the normal three-year represcription cycle;

(9) carriers must be allowed to change parameters within the established range;

(10) the Commission should conduct a range review every three or five years depending on the account; and

(11) new ranges should be established based on the current parameters used by carriers.

In addition, if the basic factors range option is chosen, CBT submits that a standard curve should be selected for each account used by carriers. In light of its proposed use of industry-wide data to determine a range of curve shapes for accounts rather than account-specific data for individual carriers, the Commission seeks comment on whether it should continue to use its equal life group (ELG) procedures.18/ CBT believes that ELG methodology is appropriate. Selection of

18/ NPRM at paragraph 25.

a standard curve will, in effect, create a standard ELG straight-line recovery pattern. Although not carrier-specific, this ELG pattern should more accurately reflect average consumption of investments. Remaining-life methodology should continue to be employed to ensure recovery.

IV. THE DEPRECIATION SCHEDULE OPTION

Under the depreciation schedule option, the Commission proposes to simplify the depreciation process by establishing a depreciation schedule for each plant account. Once established, carriers would apply the depreciation schedule to their investment by vintage.[19]

CBT opposes implementation of the depreciation schedule option. This option is too restrictive for today's competitive marketplace, and transfers management responsibility from carriers to the Commission. In addition, this option, as the Commission noted,[20] offers the largest deviation between the allocation of costs and plant consumption. This option also may require the tracking of accruals by vintage,[21] a

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19/ NPRM at paragraph 11.

20/ NPRM at paragraph 33

21/ NPRM at paragraph 36

requirement that would significantly complicate current accounting processes. With the increasingly competitive environment, carriers need to be able to respond quickly. The rigidity of the depreciation schedule option would cause carriers to submit studies for rates other than those specified, thereby nullifying any hoped for simplification. In addition, many accounts are too volatile to be forced into an arbitrary depreciation schedule.

V. SALVAGE

In response to the Commission's request for comment,[22/] CBT submits that the Commission should not change its approach to salvage. CBT believes little simplification would be achieved by removing salvage from the depreciation process. If the salvage revenue and the cost of removal for each retirement were considered to be income and expense items, there would be two major concerns on CBT's part. First, a considerable effort would be required to revise the accounting systems and retrain employees. Second, forecasts for the revenues and the expenses generated by retirements would be required to be part of a company's annual revenue and expense forecasting process. Depending on the account, then, there may

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22/ NPRM at paragraph 43.

well be wide fluctuations in salvage revenues and cost of removal expenses from year to year making forecasting extremely difficult. Any simplification achieved in the Capital Recovery process would be offset by the effects of the change in salvage treatment.

VI. CONCLUSION

CBT supports the Commission's efforts to simplify the depreciation prescription process and submits that the price cap carrier option for all carriers would provide the maximum benefit of the four options. It would simplify current depreciation procedures tremendously, and give carriers the flexibility they need to compete in today's rapidly changing environment. However, should the Commission decline to adopt the price cap carrier option, or adopt it for price cap carriers only, then the depreciation rate range option and/or the basic factor range option, with the modifications suggested herein, would be acceptable for CBT. Maximum benefits would be achieved by the inclusion of all accounts.

Respectfully submitted,

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Dated March 10, 1993

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Certificate of Service

I, Lynda M. Breen, do here by certify on this 10th day of March, 1993, that I have caused a copy of the foregoing Cincinnati Bell Telephone Company's Comments to be mailed, via first class United States Mail, postage prepaid, to the persons on the attached Service List.

Lynda M. Breen

Lynda M. Breen

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